

**CONSOLIDATED RURAL
WATER DISTRICT NO. 3
SHAWNEE COUNTY, KANSAS**

**FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

And

INDEPENDENT AUDITOR'S REPORT

...KL...

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CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Consolidated Rural Water District No. 3,
Shawnee County, Kansas
Topeka, Kansas 66610

We have audited the accompanying financial statements of the business-type activities of the Consolidated Rural Water District No. 3 as of and for the years ended December 31, 2018 and 2017, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the business-type activities of the Consolidated Rural Water District No. 3, Shawnee County, Kansas, as of December 31, 2018 and 2017, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Consolidated Rural Water District No. 3, Shawnee County, Kansas financial statements as a whole. The Schedule of Insurance in Force is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Karlin & Long, LLC
Certified Public Accountants

Lenexa, KS
January 28, 2019

Consolidated Rural Water District #3, Shawnee County Management's Discussion and Analysis

Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. This portion of the Water District's annual financial report is intended to provide an easily read analysis of the District's financial activities and condition, based on current known facts, for the fiscal year ending on December 31, 2018. This information is presented in conjunction with the audited financial statements that follow.

Organizational and Business

This Water District provides water services. The District is currently serving approximately 1,112 customers. The water is supplied mainly to residential customers and business customers.

Overview of the Financial Statements

This annual report consists of the following parts: 1) Management's Discussion and Analysis, 2) Basic Financial Statements, 3) Other Required Supplementary Information in the form of Notes.

Financial Statements

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The District's assets and liabilities are reported on the Statement of Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expense and Changes in Net Assets present the results of the District's operations over the course of the fiscal year and provides information as to how the net assets changed during the year. This statement can be used as an indicator that the District is successfully recovering costs through user fees and other charges.

The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operations, capital, non-capital, and investing and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash and cash equivalents balance for each of the last two fiscal years.

Financial Analysis

Financial Highlights (see table 1)

The total assets of the District exceed total liabilities by \$5,000,203

The total assets increased from last year by \$207,521.

Capital assets decreased during the fiscal year by \$99,948 or 2.8%.

The District's total net assets increased by \$207,521 or 3.9% during the year.

	<u>2018</u>	<u>2017</u>	<u>Variance</u>	<u>% Change</u>
Current and other assets	\$ 1,959,057	\$ 1,651,588	\$ 307,469	16%
Capital assets, net	3,506,142	3,606,090	(99,948)	-3%
Total assets	\$ 5,465,199	\$ 5,257,678	\$ 207,521	4%
Long-term debt	\$ 342,376	\$ 381,867	\$ (39,491)	-10%
Other liabilities	122,620	182,569	(59,949)	-33%
Total liabilities	464,996	564,436	\$ (99,440)	-18%
Net assets invested in capital assets, net of related debt	3,107,287	3,105,168	\$ 2,119	0%
Net assets restricted for debt service		27,500	(27,500)	0%
Unrestricted net assets	1,892,916	1,560,574	332,342	18%
Total net assets	\$ 5,465,199	\$ 5,257,678	\$ 207,521	4%

Results of Operation

Changes in the District's net assets for the year (see table 2)

Table 2
Condensed Statement of Revenues, Expenses and Changes Net Assets

	<u>2018</u>	<u>2017</u>	<u>Variance</u>	<u>% Change</u>
Revenues:				
Operating revenues	\$ 1,492,790	\$ 1,325,534	\$ 167,256	13%
Non operating revenues	99,977	89,608	10,369	12%
Total revenues	\$ 1,592,767	\$ 1,415,142	\$ 177,625	13%
Expenses:				
Operating expenses	\$ 1,104,924	\$ 936,605	\$ 168,319	18%
Depreciation	158,859	168,354	(9,495)	-6%
Non operating expenses	22,023	25,557	(3,534)	-14%
Total expenses	\$ 1,285,806	\$ 1,130,516	\$ 155,290	14%
Changes in net assets	\$ 306,961	\$ 284,626	\$ 22,335	8%
Beginning net assets	4,693,242	4,408,616	284,626	6%
Ending net assets	\$ 5,000,203	\$ 4,693,242	\$ 306,961	6%

Results of Operation (continued)

The District's total operating revenues of \$1,492,790 for the year increased by \$167,256 or 12.6%.

The District's change in net assets increased by \$306,961.

Operating expenses increased primarily due to water purchases.

Capital Assets

The District has \$3,107,287 in capital assets (net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction or improvements of those assets).

Other Factors

There are no deferred outflows of resources. There are no deferred inflows of resources.

During 2018 it had been determined that there could be a significant capital project regarding a dam in the district in the near future. The direction and amount of that project are yet to be determined.

Additional Financial Information

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the General Manager at 4926 SW Wanamaker Topeka, KS 66610, or (785) 862-3305

CONSOLIDATED RURAL WATER DISTRICT No. 3

Shawnee County, Kansas

STATEMENTS OF NET POSITION

As of December 31, 2018 and 2017

	ASSETS	
	2018	2017
Current Assets		
Cash and equivalents	\$ 571,430	\$ 378,716
Certificates of deposits	1,211,229	1,077,877
Accounts receivable	112,990	108,053
Inventory	35,363	32,934
Prepaid expenses	28,045	26,508
Total unrestricted current assets	1,959,057	1,624,088
Restricted cash and investments	-	27,500
Total current assets	1,959,057	1,651,588
Depreciable capital assets		
Water distribution system	7,277,629	7,218,718
Less: accumulated depreciation	(3,771,487)	(3,612,628)
Total depreciable capital assets	3,506,142	3,606,090
Total capital assets	3,506,142	3,606,090
Total assets	\$ 5,465,199	\$ 5,257,678
LIABILITIES AND NET POSITION		
Current Liabilities		
Current maturity of long term debt	\$ 56,479	\$ 119,055
Accounts payable and accrued expenses	59,974	56,073
Other accrued liabilities	6,167	7,441
Total current liabilities	122,620	182,569
Long Term Debt, net of current maturities	342,376	381,867
Net Position		
Invested in capital assets, net of related debt	3,107,287	3,105,168
Restricted	-	27,500
Unrestricted	1,892,916	1,560,574
Total net position	\$ 5,000,203	\$ 4,693,242

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT No. 3

Shawnee County, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2018 and 2017

	2018	2017
Revenues		
Water sales	\$ 1,080,534	\$ 977,409
City of Topeka water sales	54,150	36,434
Water sales RWD #8	358,106	311,691
Total operating revenues	1,492,790	1,325,534
Operating Expenses		
Water purchases	816,828	662,102
Payroll and payroll taxes	159,174	170,989
Employee pension and benefits	14,730	19,717
Office supplies and postage	12,814	10,920
Insurance	21,999	17,868
Professional fees	19,192	22,404
Depreciation and amortization	158,859	168,354
Engineering	10,632	7,035
Water taxes	2,969	1,986
Repairs	47,282	64,321
Board member expense	6,100	5,475
Utilities and telephone	30,569	27,189
Contract labor	4,560	-
Miscellaneous	2,975	4,254
Total operating expenses	1,308,683	1,182,614
Income (loss) from operations	184,107	142,920
Non-Operating Revenues (Expense)		
Interest income	19,035	13,899
Other fees	71,482	65,944
Penalties/ late charges	9,460	9,765
Interest expense	(22,023)	(25,557)
Total non-operating income (expense)	77,954	64,051
Increase in net assets	262,061	206,971

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT No. 3

Shawnee County, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Capital Contributions		
Benefit units sold	21,750	40,750
Contributions in aid of construction	<u>23,150</u>	<u>36,905</u>
	44,900	77,655
Change in Net Position	306,961	284,626
Net Position - Beginning of Year	<u>4,693,242</u>	<u>4,408,616</u>
Net Position - End of Year	<u>\$ 5,000,203</u>	<u>\$ 4,693,242</u>

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT No. 3

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash receipts from customers	\$ 1,487,853	\$ 1,324,550
Cash payments to suppliers for goods and services	(977,259)	(824,440)
Cash payments to employees for services	(173,904)	(190,706)
Net cash provided by operating activities	336,690	309,404
Cash flows from investing activities		
Restricted cash increase	27,500	-
Interest received on certificates of deposit	19,035	13,899
Redemption of certificates of deposit		-
Purchase of certificates of deposit	(133,352)	(131,784)
Net cash provided by investing activities	(86,817)	(117,885)
Cash flows from capital and related financing activities		
Purchase of capital assets	(58,911)	(54,272)
Principal payment on long term debt	(102,067)	(120,537)
Interest paid	(22,023)	(26,038)
Proceeds from the sale of benefit units	21,750	40,750
Contributions in aid of construction	23,150	36,905
Net cash used in capital and related financing activities	(138,101)	(123,192)
Cash flows from non-capital financing activities		
Other income	80,942	75,709
Net increase (decrease) in cash and cash equivalents	192,714	144,036
Cash and cash equivalents, beginning of year	378,716	234,680
Cash and cash equivalents, end of year	\$ 571,430	\$ 378,716

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT No. 3

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 184,107	\$ 142,920
Adjustments		
Depreciation	158,859	168,354
Changes in assets and liabilities		
Accounts receivable	(4,937)	(984)
Inventory	(2,429)	1,225
Prepaid expenses	(1,537)	(947)
Accounts payable	3,901	(1,287)
Accrued expenses	<u>(1,274)</u>	<u>123</u>
Net cash provided by operating activities	<u>\$ 336,690</u>	<u>\$ 309,404</u>

The notes to the financial statements are an integral part of this statement.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Organization

Consolidated Rural Water District No. 3, Shawnee County (the District) was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Shawnee County.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Position or Balance Sheet

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of depreciation; 2) restricted (if applicable); and 3) unrestricted.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

GASB Statement No. 34 (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

GASB Statement No. 20

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Certificates of Deposit

The certificates of deposit represent nonnegotiable certificates of deposit. The Certificates of deposit are recorded at cost because they are not affected by market rate changes.

Accounts Receivable

The District reads meters during the week of the 20th each month and the invoices are mailed out on the 1st of each month. Payments for water service are due the 20th day of the following month or will be subject to a late charge of 6% The District considers all accounts collectable.

Inventory

Inventories consist of primarily water meters, pipe, and line maintenance material. Inventories are stated at the lower cost or market. Cost is determined using the first in first out (FIFO) method

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The district does not have a formal capitalization policy. Depreciation and Amortization expense totaled \$158,859 and \$168,354 for the years ended December 31, 2018 and 2017, respectively.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units for ¾” are presently sold for \$2,500 and installation fees of \$2,000 plus an additional \$1,200 if a road bore is required. The cost of 1” benefit units was increased to \$3,200 during the September 2014 meeting.

Aid in Construction

Aid in Construction represents contributions from the members for line extensions, and are included in the statement of activities

Net Position

The District’s net position is classified as follows:

Invested in capital assets, net of accumulated depreciation – This represents the District’s total investment in capital assets, net of accumulated depreciation.

Restricted net position – This includes amounts set aside for bond requirements.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Use of Estimates

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level. The District’s payroll tax returns for the years ending 2018, 2017, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2018 and 2017.

At December 31, 2018 and 2017, the District's carrying amount of deposits, including certificates of deposit, was \$1,782,659 and \$1,484,093 respectively, and the bank balance was \$1,781,393 and \$1,483,562 respectively, of which \$779,405 was covered by FDIC insurance. \$1,001,988 was collateralized by securities held in safekeeping pledged to the District.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. See Schedule of Insurance in Force for details of insurance.

NOTE 4 – Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. We noted no violations of Kansas statutes during the years ended December 31, 2018 and 2017.

NOTE 5 – Concentrations of Suppliers and Customers

The District acquires 100% of its water from the City of Topeka, Kansas. There are no other suppliers of water available for this district.

The District sells water to Rural Water District No. 8, Osage County, Kansas. In 2018 and 2017, the District sold 55,963,000 gallons and 56,877,945 gallons of water which accounted for 34% and 23% of the gallons sold, respectively.

NOTE 6 – Pension Plan

The District has a Savings Incentive Match Plan for Employees (SIMPLE) whereby, the eligible employees defer 5% of their compensation and the District contributes 3%. All contributions made under the SIMPLE plan are fully vested and non-forfeitable. For the years ended December 31, 2018 and 2017, the District contributed \$4,427 and \$4,641, respectively to the SIMPLE plan.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7– Contracts

In August 1980, Rural Water District No. 6, Shawnee County, Kansas entered into an agreement with the City of Topeka, Kansas (City) to purchase water. As part of the agreement, the District paid the City \$794,700 as a connection charge. The agreement is for a forty year period.

In June 1991, Rural Water District No. 7, Shawnee County Kansas entered into an agreement with the City of Topeka, Kansas (City) to purchase water. As part of the agreement, the District paid the City \$69,500 as a connection charge. The City will provide water not to exceed 250 gallons per minute.

In August 2005, the City of Topeka entered into an agreement with Consolidated Rural Water District No. 3 Shawnee County, Kansas to continue to provide water under the above contracts.

In 2018 and 2017 the District purchased 176,542,364 gallons and 148,766,754 gallons of water, respectively, at a rate of \$ 4.69 and \$4.45 respectively per thousand gallons.

NOTE 8 –Property, Plant, and Equipment

The following represents property, plant, and equipment of the District:

	<u>2018</u>	<u>2017</u>
Land	\$ 34,579	\$ 34,579
Distribution system	5,456,714	5,429,552
Building	584,514	584,514
Office equipemnt	20,206	20,206
Shop equipment	307,392	275,643
Connection fee	<u>874,224</u>	<u>874,224</u>
	7,277,629	7,218,718
Accumulated depreciation	<u>3,771,487</u>	<u>3,612,628</u>
Book value	<u>\$ 3,506,142</u>	<u>\$ 3,606,090</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS**NOTE 8 –Property, Plant, and Equipment (continued)**

The following represents a roll-forward of property, plant, and equipment as of December 31, 2018 and 2017:

	2018 Rollforward			Ending Balance
	Beginning Balance	Additions	Dispositions	
Land	\$ 34,579			\$ 34,579
Distribution system	5,429,552	27,162		5,456,714
Building	584,514			584,514
Office equipment	20,206			20,206
Shop Equipment	275,643	31,749		307,392
Connection Fee	874,224			874,224
	<u>\$ 7,218,718</u>	<u>\$ 58,911</u>	<u>\$ -</u>	<u>\$ 7,277,629</u>
	2017 Rollforward			Ending Balance
	Beginning Balance	Additions	Dispositions	
Land	\$ 34,579			\$ 34,579
Distribution system	5,456,714	44,699		5,501,413
Building	584,514	3,679		588,193
Office equipment	20,206			20,206
Shop Equipment	307,392	5,894	-	313,286
Connection Fee	874,224			874,224
	<u>\$ 7,277,629</u>	<u>\$ 54,272</u>	<u>\$ -</u>	<u>\$ 7,331,901</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Property, Plant, and Equipment (continued)

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

Distribution lines	5,000	Straight Line	40 years
Meters	5,000	Straight Line	40 years
Shop Equipment	5,000	Straight Line	3-10 years
Office equipment	5,000	Straight Line	3-10 years
Purification	5,000	Straight Line	10-20 years
Furniture and Fixtur	5,000	Straight Line	3-10 years
Connection fee	5,000	Straight Line	40 years

NOTE 9 – Long Term Debt

In 2013, the District refinanced the Series 2005 Bonds with Water Utility System Revenue Bonds, Series 2012 totaling \$275,000 (\$0- outstanding at December 31, 2018) bearing interest at .50% to 1.50%. Annual principal payments range from \$45,000 to \$50,000 beginning October 1, 2013 through October 1, 2018. Interest payments begin April 1, 2013 and are paid semi-annually on April 1 and October 1. Revenues of the District have been pledged as collateral for the bonds. The bonds were paid off as of October 1, 2018.

During 2009, the District entered into an agreement with Silver Lake Bank for a closed ended credit facility of up to \$1,000,000 (\$398,855 outstanding at December 31, 2018). In February 2010, the construction loan was converted to into a 15 year term loan. The loan matures in February 2025, and has an interest rate of 1% above prime, with a floor of five percent. The proceeds of the loan were used for the construction of a 500,000 gallon water tower and line improvements

The portion of the debt schedule below related to the variable rate loan includes the current amortized interest. The interest rate is subject to change, per the loan agreement.

CONSOLIDATED RURAL WATER DISTRICT NO. 3
Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – Long Term Debt (continued)

Long term debt transactions were as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Series 2012 Bond	\$ 45,000		\$ 45,000	\$ -
Construction Loan	455,922		57,067	398,855
	<u>500,922</u>	<u>-</u>	<u>102,067</u>	<u>398,855</u>

Principal and Interest payments for the debt for the next five years and in five year increments are as follows:

	Principal	Interest	Total
2019	\$ 56,497	\$ 19,183	\$ 75,680
2020	59,451	16,211	75,662
2021	62,580	13,082	75,662
2022	65,873	9,788	75,661
2023	69,340	6,321	75,661
2023	72,989	2,672	75,661
2023	12,125	77	12,202
	<u>\$ 398,855</u>	<u>\$ 67,334</u>	<u>\$ 466,189</u>

Compliance With Other Finance-Related Legal and Contractual Provisions

The Water Utility System Revenue Bonds, Series 2012 required a bond reserve account to be established in the amount equal to 10% of the original revenue bond issuance. The District had not established a separate account for this reserve but had set aside cash balance for the purpose of funding the reserve. Since the bonds are longer outstanding for 2018, there is no longer a reserve cash requirement. The cash balance reserve for 2018 and 2017 was \$ -0- and \$27,500, respectively.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – Long Term Debt (continued)

Debt Service Coverage Ratio

As part of the loan, the District was required to maintain a debt service coverage ratio of 1.25 and establish a loan reserve account in the amount of 10% of the initial principal. The District's debt service coverage ratio for 2018 and 2017 was calculated as follows. Since the loan has been paid off, there is no longer a debt service coverage requirement.

	<u>2018</u>	<u>2017</u>
Income (loss) before capital contributions		\$ 142,920
Interest expense		25,557
Depreciation and amortization		<u>8,354</u>
Available for debt service		176,831
Debt service		<u>45,675</u>
Debt service coverage ratio	<u>N/A</u>	<u>3.87</u>

NOTE 10 – Other Contracts

In August 1998, the District entered into a lease agreement with APT Kanas City, Inc. d/b/a as T-Mobile (APT) for the purpose of leasing tank space for their telecommunication antennas. The lease term is for 5 years with 4 additional 5 year option periods. APT paid the District \$15,741 and \$13,899 in lease payments in 2018 and 2017, respectively, which is included with "Other Fees" on the Statement of Revenues, Expenses and Changes in Net Position.

In July 2015, the District entered into a lease agreement with Mercury Wireless Kansas, LLC for the purpose of leasing tank space for their telecommunication antennas. The lease term is for 5 years. Mercury Wireless paid the District \$7,200 and \$7,200 in lease payments in 2018 and 2017, respectively, which is included with "Other Fees" on the Statement of Revenues, Expenses and Changes in Net Position.

CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – Concentration of Customers

The District has a contract dated March 29th, 1982 with Rural Water District #8, Osage County, Kansas for the delivery and selling of water supply to Rural Water District #8. The term of the contract is for 40 years from the date of initial delivery of any water. Sales to Rural Water District #8, Osage County, amounted to 24% of the District water sales.

NOTE 12 – Compensated Absences

For each employee of the District will earn paid vacation for each year of continuous employment as follows

After 1 year	One week (40 hours) each year
After 2 years	Two weeks (80 hours) each year
After 5 years	Three weeks (120 hours) each year

A full year of continuous employment means that as of your anniversary date each year, you can completed at least twelve continuous calendar months of employment. Vacation days may be accumulated up to a minimum of 20 days (160 hours)

Unused vacation will be paid provided the district receives a minimum of two weeks' notice of termination of employment from the employee.

Each employee of the district shall accumulate 1 day (8 hours) of sick leave per month beginning the first full month of employment. Sick leave benefits may be accumulated up to a maximum of 30 days (240 hours). Once the maximum amount of sick days has been accumulated by the employee no further days may be accrued. Sick leave benefits may also be used for medical related conditions such as immediate family members shall include your spouse, children, employee's parents, and employees spouse's parents.

NOTE 13 – Subsequent Events Review

Subsequent events for management's review have been evaluated through January 28, 2019. This is the date the financial statements were available to be issued.

CONSOLIDATED RURAL WATER DISTRICT No. 3

Shawnee County, Kansas

SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of December 31, 2018

Property Covered	Coverage	Expires
Commercial property:		
Building and personal property	\$ 1,380,471	1/1/2019
Water towers and equipment	3,109,610	
General Liability:		
Aggregate Limit - products/completed operations other than products/completed ops	2,000,000 2,000,000	1/1/2019
Personal and advertising injury	1,000,000	
Damage to premises rented to you	300,000	
Medical expense (per person)	5,000	
Commercial Auto:		
Liability insurance (per loss)	500,000	1/1/2019
Uninsured motorist	500,000	
Workmen's compensation:		
Bodily injury by accident	500,000	1/1/2019
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		
Per loss	200,000	1/1/2019
Inland Marine		
Miscellaneous Property	352,871	1/1/2019
Linebacker Coverage		
Each loss	1,000,000	1/1/2019
Aggregate	1,000,000	
Cybersolutions Coverage		1/1/2019
Aggregate	325,000	